

British Columbia's 'interest bite' more like a 'nibble'

By Warren Lovely

As promised, 2021-22 fiscal updates have been something to behold for Canada's provincial governments. British Columbia is the latest to treat us to some [truly striking and overwhelmingly positive news](#). B.C.'s economic outlook has received a major upgrade relative to the ultra-cautious forecasts set down in April's budget. Growth for virtually every indicator worth tracking looks better... and not by a little bit (Chart 1).

Little wonder that provincial revenue is rushing through the door considerably faster than planned. B.C.'s Q1 update identified an extra C\$6.2 billion in revenue for 2021-22, a greater than 10% improvement vs. April's budget plan. There's bonus revenue almost everywhere you look: personal income tax, corporate income tax, sales tax, property transfer tax, fuel taxes, employer health tax, natural gas and mining royalties, electricity sales, forest revenue, fees/licenses, Crown Corp. net income... the list goes on. And let's not forget that the feds have also kicked in extra transfers. An aside: The major parties contesting the federal election are pledging extra supports, including for health care.

Notwithstanding a savage wildfire season, only a minor fraction (22%) of B.C.'s incremental revenue is being consumed by above-plan spending in 2021-22. The result: B.C.'s budget deficit has been halved, morphing from a budgeted C\$9.70 billion to C\$4.83 billion as of Q1 (Chart 2). That works out to less than 1.5% of GDP and now resides towards the lower end of the provincial spectrum. Despite ongoing economic and virus uncertainty, a C\$1 billion forecast allowance remains intact, on top of C\$3.25 billion in pandemic and recovery contingencies. We don't want to get ahead of ourselves, but all that budgetary insulation suggests this may not be the only fiscal upgrade B.C. announces for 2021-22.

The new, smaller deficit means significantly less debt will be added this fiscal year. Gross borrowing needs have been slashed to >C\$13 billion, with less than half (C\$6.3 billion) still to go. Interest charges, meanwhile, have actually been nudged a bit lower relative to budget. The end result is a notable reduction in what is already a fairly minor 'interest bite' (defined as the share of revenue consumed by debt servicing costs). You can measure the interest bite a few different ways, and in B.C.'s case, taxpayer-supported interest consumes a scant 3.0% of related revenue (Chart 3), an historic low. That's not much of a 'bite' at all... more like a 'nibble' in our opinion. If you go in for inter-provincial comparisons, and why wouldn't you, we'd note that no jurisdiction currently spends relatively less to service its debt than British Columbia (Chart 4). That's a distinction worth bragging about, as B.C.'s extreme debt affordability is an important component of this province's overall credit story.

Chart 1: Economic activity considerably stronger than plan

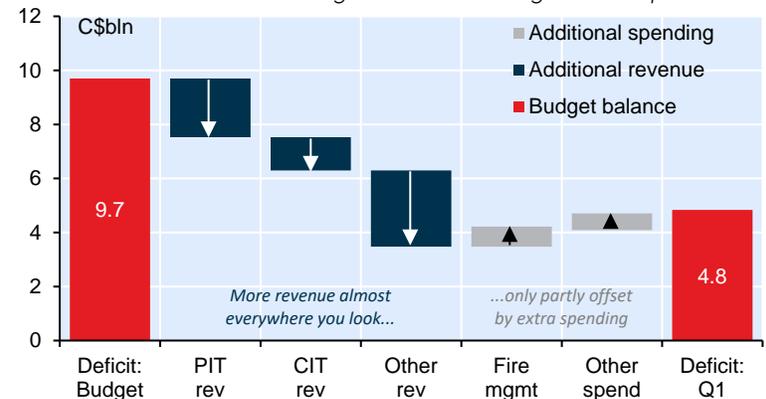
2021 growth in British Columbia key economic indicators



Source: NBF, BC

Chart 2: B.C. halves 2021-22 deficit, with padding to spare

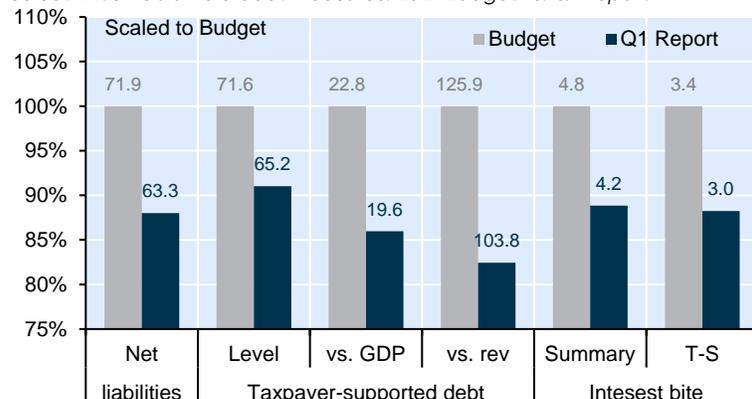
Evolution of British Columbia budget deficit: 2021 Budget to Q1 Report



Source: NBF, BC | Note: Arrows indicate direction of impact on budget deficit; Q1 deficit is after C\$1bln forecast allowance & C\$3.25bln in pandemic/recovery contingencies

Chart 3: B.C.'s debt metrics see nice improvement

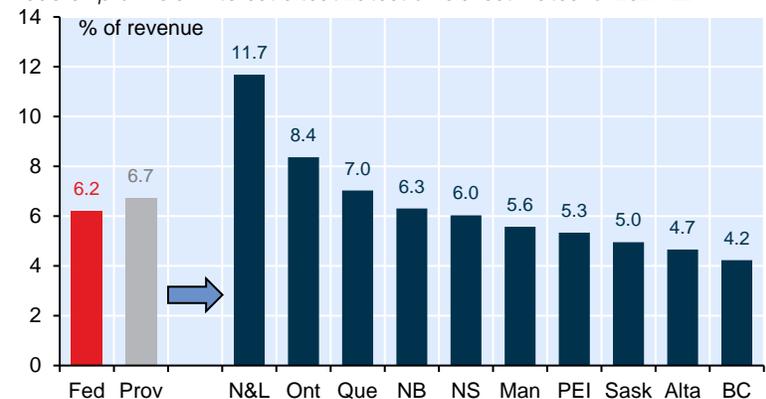
Select British Columbia debt measures: 2021 Budget vs. Q1 Report



Source: NBF, BC | Note: Net liabilities & level of taxpayer-supported debt expressed in C\$bln, all other variables are %

Chart 4: B.C.'s interest bite smallest of them all

Federal-provincial 'interest bites': Latest official estimates for 2021-22



Source: NBF, fed-prov gov'ts | Note: Based on latest available official estimates; summary accounts basis; figures may not be strictly comparable



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